Jewel
Companies,
Inc.

Diversified
Retailers

1974 Annual Report

Looking Back With Pride The original Jewel company marked its 75th anniversary in 1974. Now called the Direct Marketing Division, it was symbolized to generations of Americans from coast to coast by the Jewel Tea route man (today 22 of the Jewel routes are operated by women). The routes were distinguished in 1975 by their 54th consecutive year of earnings, a record matched by only a few of the companies currently listed on the New York Stock Exchange.

The story is well known of our two hard-working, inventive founders who started bringing coffee, tea and spices to Chicago homemakers in 1899. As the partnership prospered it became the acorn from which grew the Jewel tree of companies which today forms the 12th largest retailer in the country. The horse and wagon became the Jewel route truck. The coffee, tea and spice line broadened to include groceries and general merchandise. The friendly and personal service not only endured to ensure the success of what has become almost an American institution, but also provided the philosophic foundation for the Jewel family of companies.

America's history is abundant with stories of hardship met with ingenuity, of failure not admitted and indeed overcome, of success born of the courage and determination and resourcefulness of strong and honest people. We take pride in the part that Jewel people have played in demonstrating the vitality and the truth of the free enterprise system, this country's basic strength. While Jewel's history is no more unique or noble than that of many other distinguished institutions, it is no less remarkable than the best of what is America's heritage.

1899 The original Jewel company was founded as the Jewel Tea Company by Frank Skiff and Frank Ross, as a door-to-door, coffee and tea route business on Chicago's West Side.

1901 In May, Albert Eisner, Sr. celebrated the opening of the Eisner Wholesale Grocery Company. Although successful as a wholesaler, Mr. Eisner and his son Albert Jr. gave the company its real potential for growth with the opening in 1915 of their first retail store, the Basket Grocery, in Danville, Illinois.

1902 Mr. and Mrs. F. A. Buttrey opened The Fair in Havre, Montana. In 1935, the company split its food and general merchandise lines and began a separate food company - Buttrey Food Stores.

1914 The Durand Company, a forerunner of Brigham's, opened its first store in Post Office Square, Boston.

1917 The Mugar family bought a food store in Watertown, Massachusetts and began the father and son partnership of Star Market Co.

1932 Jewel Food Stores became the second Jewel company when the Jewel Tea Company purchased 81 grocery stores in the Chicago area with hopes of diversifying its business.

1937 Originally called Payless Drug, then Self Service Drug, the Osco Drug, Inc. chain of self-service drug stores opened its first store in Rochester, Minnesota.

1949 Republic Lumber Company was founded on Chicago's Northwest Side as a small, traditional, neighborhood lumberyard serving new home contractors and local consumers.

1957 Turn*Style, using self-service and promotional pricing to sell soft and hard goods, opened its first store in Lynn, Massachusetts.

1965 The White Hen Pantry convenience store concept was developed from within Jewel Companies. Its first store opened in Des Plaines, Illinois.

1969 Initiated as a new venture, Mass Feeding Corporation pioneered a national leadership role in serving nutritionally balanced lunches to elementary school children. Its first meals were served at Helen Keller Junior High in Schaumburg, Illinois.

1974 Formulated in 1974 by drawing talent from several Jewel companies, Jewel Marketing Company serves Osco Drug, Inc., Republic Lumber Company and Turn*Style.

Results in Brief

(Dollars in thousands except per share figures)	1974 % to Total	Fiscal Year 1974	Fiscal Year 1973	% Increase 1974 over 1973
Sales:				
Supermarkets	73.3%	$1,905,114	$1,631,361	16.8%
Drug stores	11.5	298,923	256,691	16.5
Self-service department stores	7.8	203,516	181,389	12.2
Direct Marketing Division	3.6	93,805	88,508	6.0
Other sales and revenues	3.8	97,555	61,652	58.2
Total sales	100.0%	$2,598,913	$2,219,601	17.1%

	Fiscal Year 1974	Fiscal Year 1973
Net Earnings for the Year	$ 30,230	$ 29,590*
Percent to total sales	1.2%	1.3%
Percent to shareholders' average equity	11.0%	11.8%
Common Shares Outstanding—Average (000's)	11,381	11,217
Earnings Per Common Share	$ 2.65	$ 2.63*
Dividends Paid Per Common Share	1.1534	1.1068
New Property, Plant and Equipment (net):		
Jewel Companies, Inc.	$ 55,065	$ 55,013
Real estate affiliates	22,760	22,515

	Feb. 1, 1975	Feb. 2, 1974
Working Capital	$ 92,403	$ 80,655
Ratio of Current Assets to Current Liabilities	1.5 to 1	1.5 to 1
Shareholders	14,324	13,694
Employees (full-time equivalents)	35,256	34,944

Quarterly Data

	Total Sales (Thousands)		Net Earnings (Thousands)		Earnings Per Share		Dividends Paid Per Common Share		Common Stock Price Range Low-High	
Quarter	1974	1973	1974	1973	1974	1973	1974	1973	1974	1973
1st (12 weeks)	$ 550,236	$ 460,826	$ 5,519	$ 4,041	$ .49	$ .36	$ .2767	$ .2767	$24⅛–29⅛	$27⅝–34⅛
2nd (16 weeks)	774,004	654,170	8,891	8,197	.78	.73	.2767	.2767	19¼–27⅝	18⅝–29⅜
3rd (12 weeks)	610,770	511,214	4,681	4,599*	.41	.41*	.3000	.2767	17¼–22½	22⅝–30¾
4th (12 weeks)	663,903	593,391	11,139	12,753	.97	1.13	.3000	.2767	16⅝–22¾	19⅜–27½
Total Year	$2,598,913	$2,219,601	$30,230	$29,590*	$2.65	$2.63*	$1.1534	$1.1068	$16⅝–29⅛	$18⅝–34⅛

*Excludes extraordinary income of $6,746,000 ($.60 per common share) in 1973.
Per common share amounts have been adjusted to reflect a 3-for-2 stock split in July, 1974.

Copies of the Company's Annual Report (Form 10K) filed with the Securities and Exchange Commission may be obtained without charge upon request to Secretary, Jewel Companies, Inc., 5725 N. East River Road, Chicago, Illinois 60631.

Record Sales and Earnings

As shown in the Results in Brief on the preceding page, Jewel's sales of $2,598,913,000 represented an increase of 17.1% over 1973. Sales in identical units increased 11.6% with new retail space accounting for the remainder of the increase.

Net earnings were $30,230,000 or $2.65 per share. Although this earnings result was a slight increase and represented the 11th consecutive year of increase, excluding extraordinary items, we are disappointed that Jewel's earnings did not keep pace with the healthy sales increase. We will comment on the reasons more fully in this report.

Dividends were increased 8.4% to an annual rate of $1.20 to coincide with a three-for-two split in the Company's common stock at mid-year. Jewel's dividend payout has now been increased for 10 consecutive years.

Our 75th Year . . . A Year Of Growth

Jewel companies opened 78 new stores and enlarged 14 stores in 1974 adding 1.5 million square feet of new space, as follows:

Business Area	New Stores	Enlarged Stores	Total Square Footage Added
Supermarket	22	11	942,949
Drug Store	20	1	351,758
Home Improvement	1	-	80,100
Convenience Food	33	-	78,798
Restaurant	2	2	10,262
Total Added Space			1,463,867

New supermarkets average 37,638 square feet, 61% larger than our typical pre-1974 supermarket. New drug stores average 17,366 square feet, 20% larger than their predecessors. The average supermarket age is now 8.1 years, the average Osco drug store, 6.6 years.

Following our practice of eliminating obsolete, non-productive facilities, we closed 15 supermarkets, 9 drug stores, 5 restaurants and 11 convenience food stores, a total of 373,000 square feet.

Our 1974 investment in manufacturing, processing and distribution facilities was largely to improve existing facilities. Early in the year, an addition to the Jewel Food Stores' sausage plant increased capacity by 80%. The Jewel Food Stores' bakery, dairy and ice cream plant, and bakeries operated by Eisner and Star were substantially improved during the year.

We invested additional capital in the highly successful Crest Photo Lab to provide for professional finishing of portraits. We also started a pharmaceutical packaging line, located in Jewel's Barrington, Illinois manufacturing facility, to package non-prescription health aids for Osco Drug and Turn*Style.

In May, our general merchandise companies occupied a new office building in Oak Brook, Illinois. Designed for our use, this contemporary building utilizes an office landscaping concept in which live plants and movable dividers, rather than walls, define work areas. In March, we acquired an existing computer facility in Oak Brook to support the general merchandise companies and other needs of the business.

1974—92% Of Sales Accompanied by Improved Earnings

Each of Jewel's four supermarket companies, along with Osco Drug, Brigham's restaurants, Direct Marketing Division, MFC's school lunch business and White Hen Pantry exceeded their prior year's operating earnings. Thus 92% of Jewel Companies' 1974 sales volume was accompanied by an increase in domestic operating earnings. Earnings of Aurrera, S.A., diversified retailers in Mexico, in which Jewel has a 49% equity investment, also improved in 1974. The accomplishments of these businesses suggest these observations . . .

- 1974 was a reasonably improved year for food retailing. Margins

and earnings were more difficult to achieve in the last half of the year, however, as our supermarket customers shopped more stores looking for special values and purchased fewer prepared food items, substituting for them more basic items on which food store margins have historically been lower.

- 1974 was a good year for drug stores as the demand for consumable items typical of supermarket shopping pertained also to Osco. The Osco investment in its *Prescription Price Book* for consumer use at home (illustrated on page 14) helped Osco's sales beginning in the fall of 1974 and strengthened its base for additional sales in 1975.

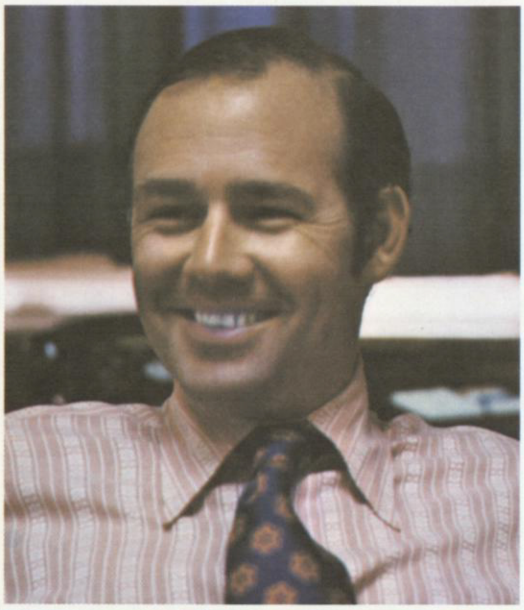
- Though Jewel's original business, the 75-year-old Direct Marketing Division, historically has performed better during periods of less than full employment, DMD people reduced investment, increased sales and exceeded their earnings goal in the face of rapidly rising operating costs.

- MFC's progress is a result of an outstanding management team who, having analyzed specific needs in the nation's school lunch demand, successfully developed the processing, distribution and service abilities to serve these needs. MFC will end the 1974-75 school year serving substantially more school lunches per day than in the prior year.

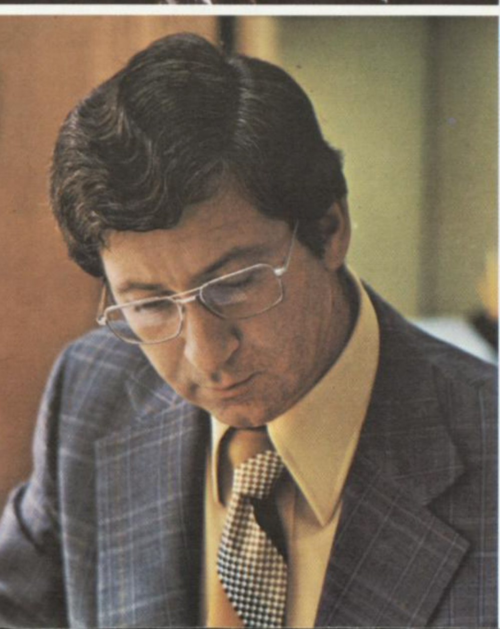
- Jewel's 49% ownership of Aurrera, Mexico's outstanding diversified retailer, produced increased earnings which approximately offset the lack of dividend income resulting from the sale in late 1973 of Jewel's stock ownership in Belgium's G B Entreprises. All earnings were retained for reinvestment in Aurrera in 1974.

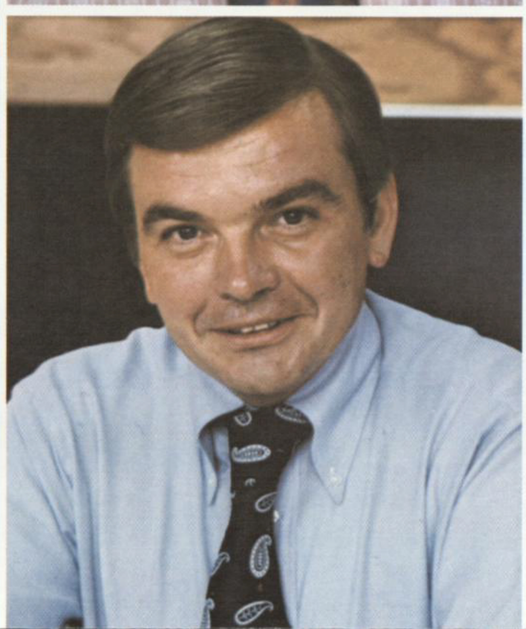
- Brigham's restaurants continued to make progress in 1974 despite the serious impact on their ice cream and candy operations by very high sugar prices in the latter months of the year.

- White Hen Pantry earnings were up fractionally after write-offs caused by the closing of unproductive stores.



(Above) Jewel's general merchandise companies moved into their new offices in Oak Brook, Illinois in July.





(Top left) Richard G. Cline, President, Jewel Marketing Company

(Top right) Peter W. Cook, President, Republic Lumber Company

(Bottom left) Darrell L. Lewis, President, Osco Drug, Inc.

(Bottom right) Frank J. Tyska, President, Turn*Style

1974 . . . Where We Were Disappointed

Operating results of Turn*Style and Republic Lumber, along with Corporate interest charges, compared negatively with the prior year and reduced earnings by 32¢ per share. In addition, Jewel's Milwaukee food stores, though operating with reduced losses compared to 1973, fell significantly short of our expectations for them in 1974. In the interest of forthright disclosure, comments follow on these disappointments and on plans that are underway to reverse these results. For your further information, they are listed in order of their negative impact in relation to our 1974 expectations.

- Turn*Style had a poor year in relation both to 1973 and to budgeted 1974 expectations. As was true of many department store and discount retailers, Christmas sales were somewhat less than expected. However, of greater importance were two other factors. First, inventories purchased in early 1974 proved to be excessive because anticipated shortages did not occur and projected demand did not materialize. Costly price reduction programs were required to relieve the inventory problem. Second, the cost of operating and subsequently discontinuing Turn*Style's five discount catalog departments amounted to 10¢ a share.

  The forthcoming year may or may not be a good general merchandise year, but a number of Turn*Style problems have been resolved. The discount catalog venture has been ended. The Turn*Style organization has been trimmed and decentralized with the promise of greater productivity and lower operating costs. Turn*Style's Boston stores have been transferred to Osco management to enable us to serve this market with a single advertising and merchandising program and with one field management team. And of considerable importance, Turn*Style inventories early in 1975 represent an 11% reduction in weeks of stock than was the case a year ago.

- Interest charges proved considerably more expensive than anticipated and were 14¢ per share greater than in 1973. Higher interest rates (averaging 33% above 1973) and higher inventory levels (averaging 19% above 1973) were largely responsible.

  Increased cost of product added considerably to the value of inventory levels. For instance, costs of packaged groceries were increased by suppliers an average of nearly four times per item during 1974. More cash than planned was needed to cover unanticipated additional costs of new stores as construction and equipment costs rose faster than ever before in our experience.

  Early 1975 interest rates are declining, and the frequency of food and general merchandise cost increases is moderating. In addition, we are in the process of carefully reviewing our control systems to be more certain that we are operating with reasonable amounts of inventory and working capital.

- Jewel's 12 Wisconsin food stores were near budgeted sales levels in 1974 and continue to grow. New people, incomplete market coverage and the rigorous pricing activity of the market leader (reported by the *Milwaukee Journal* to have 45% of Milwaukee's grocery sales) have made it difficult to achieve the gross margins we would normally expect from the quality, size and volume of the stores we are operating. Although the time required for us to reach profitability in Milwaukee is disappointing, we are no less determined to achieve it. The customer response to Jewel Food Stores in Milwaukee has strengthened this determination. In addition to further development of our people strengths, near term plans include adding to our store network, adding new customer services and continuing an aggressive merchandising program.

- Although Republic Lumber is not large in relation to Jewel's total sales, losses influenced by a major new store and by the impact of a Chicago cement drivers' strike on the garage construction operation made Republic Lumber's results a 1974 disappointment. No growth is planned in the near term while new leadership determines the profit potential of this company.

Senior Management Changes

An unusual number of management changes during 1974 tested what we have been saying over the years about the depth of human resources in Jewel. We are more convinced than ever that we do indeed have the people strengths to meet even extraordinary needs and the flexibility to cope with dramatic and unexpected change.

Two of our company presidents resigned during the year: Stanley Nathanson (Republic Lumber) and

(Top) David L. Diana, President, Eisner Food & Agency Stores

(Middle) Jo H. Armstrong, President, White Hen Pantry

(Bottom) James H. Henson, President, Star Market Co.

J. Winslow Smith (Eisner Food Stores). David L. Diana, who has been with the Company for 10 years and who had served as President of White Hen Pantry for the past seven years, was named President of Eisner. Peter W. Cook, who joined Jewel in 1963 and who had been serving as General Manager of the Retail Stores Division of Republic Lumber, became president of that company. Jo H. Armstrong is the new President of White Hen Pantry, having served in a number of major assignments in various parts of the Company during his 28-year career, including President of Eisner Food Stores and more recently corporate Vice President for Produce Procurement.

In fulfillment of his own plans and wishes, effective at the end of 1974, John M. Mugar became Chairman of Star Markets after 43 years of service. Succeeding Mr. Mugar as President of Star is James H. Henson, whose background includes experience in both Eisner and Jewel Food Stores, and who for several years has been serving as general manager of the 62 Jewel Food Stores outside of Chicago.

Mr. Henson's transfer to Star was followed by major reassignments within Jewel Food Stores under President Harry G. Beckner. Edward A. Wells was made Executive Vice President and General Manager, Chicagoland Jewel Food Stores. Ronald D. Peterson became Executive Vice President and General Manager, Midwest Jewel Food Stores. William E. Oddy is now Executive Vice President, Administration and Manufacturing.

In October, Charles B. Erickson resigned as Vice President, Secretary and General Counsel but remains with us as an attorney. Roger L. Galassini was elected Secretary. Grant C. Gentry resigned as Director and Executive Vice President, Administration (effective 3/31/75) to accept the post of President and Director of A & P.

Streamlining General Merchandise For Better Performance

The completion of two major studies undertaken in late 1973 and early 1974 resulted in the decision to change our approach to the management of our general merchandise stores—Turn*Style, Osco Drug and Republic Lumber.

The first addressed the hypermarket concept, which we mentioned in our 1973 Report to you. Several highly talented individuals from the food and general merchandise companies were assigned to study the feasibility of the concept and to identify an appropriate city for possible entry. Their findings led us to conclude that the return on investment probability was not sufficiently attractive to warrant the risk involved at this time.

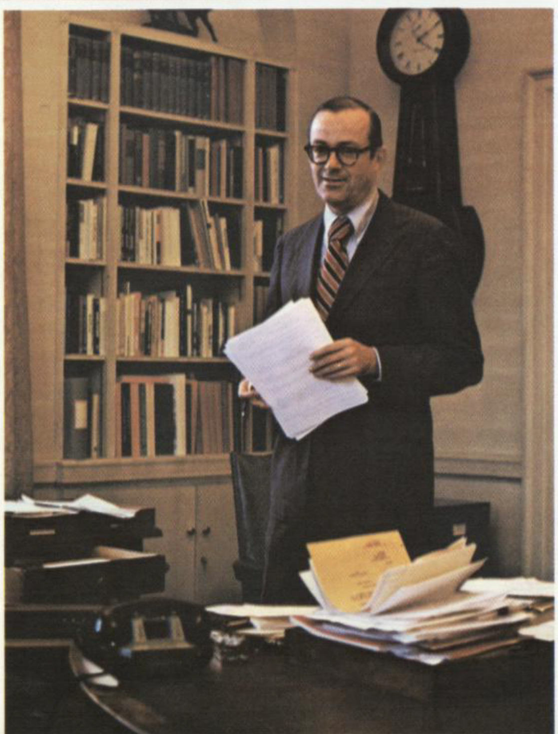
Importantly, however, we believe strongly in the potential of large stores. Our interest is stimulated by the opening of our second and third Jewel Grand Bazaar stores in 1974 and by the sales in all three of these food stores and their accompanying Osco Drug or Turn*Style partners.

In the second study, the presidents of our general merchandise companies were jointly trying to answer the question: how might Osco, Turn*Style and Republic Lumber work together more effectively to: improve earnings by eliminating duplication and waste, improve merchandising abilities, and in the process expand the opportunities for people within these companies.

These two studies led to the development of the following strategies which are now in various stages of implementation.

(Top – left to right) John Haugabrook, General Manager at Jewel Food Stores' 87th and Dan Ryan Grand Bazaar store in Chicago; Ronald D. Peterson, Executive Vice President and General Manager, Midwest Jewel Food Stores; Edward A. Wells, Executive Vice President and General Manager, Chicagoland Jewel Food Stores

(Middle – left to right) Arthur T. Dalton, Group Vice President, Manufacturing, Jewel Food Stores; William E. Oddy, Executive Vice President, Administration and Manufacturing, Jewel Food Stores



(Left) Lawrence E. Fouraker, Dean of Faculty, Harvard Business School and member, Jewel Board of Directors

- Large stores or hypermarkets will have a place in our plans as a natural outgrowth of what we are currently doing.

- A consolidation of effort in certain functional areas within each of our general merchandise companies has led to the creation of the Jewel Marketing Company. This new organization has been established to provide most of the major services common to each of the general merchandise operating companies—namely, product procurement; marketing services, such as private label development, quality control, manufacturing and processing; distribution support and planning; advertising production; real estate and construction; and marketing research.

With this approach, the operating companies retain the functions directly related to store management and look to the Jewel Marketing Company for support services. We believe this new organizational approach will strengthen store operations and contribute to the development of general merchandise store types to meet a variety of market and location opportunities with Jewel's supermarket companies.

To implement these considerable changes, Richard G. Cline, formerly President of Osco, was named President of the Jewel Marketing Company. He also serves as Corporate Vice President, General Merchandise. D. L. Lewis, who headed the hypermarket project, succeeds Mr. Cline as President of Osco Drug.

Director Changes

At the June 19, 1974 Annual Meeting, James L. Allen and George P. Baker retired from Jewel's Board of Directors in accordance with the age provision for Director retirement. Mr. Allen, a founder of the consulting firm of Booz, Allen & Hamilton served as a Jewel Director for 16 years. Mr. Baker, formerly Dean of the Harvard Business School, served as a Jewel Director for seven years. They have been outstanding Directors and we are grateful to them for their years of involvement and their many contributions.

At the time of these retirements, the size of the Board was reduced by one and the remaining vacancy was filled by Dr. Lawrence E. Fouraker, Dean of the Harvard Business School. Dean Fouraker is an outstanding teacher and school administrator and an experienced corporate director.

Outlook for 1975

Because of increased demand for working capital and the inflationary erosion on our new store and equipment dollar expenditures, we will add fewer new square feet of retail space for the coming year than has been the case in recent years. We plan to invest about $50 million to equip new facilities in 1975 compared to $55 million in 1974. Capital dollars for growth will be limited generally to those Jewel companies and, more precisely, to those locations in which risk is minimal and there is an indication of a more immediate return.

With our economy currently in its worst post-war recession, it is more difficult than usual to predict what is in store for the year ahead. However, we do know that the basic, consumable-goods retailing businesses in which Jewel is engaged have performed better than most industries in past recession environments. Furthermore, internal changes have been made which respond to Jewel's most serious problems of 1974. To the extent these changes take effect in 1975 and to the extent the economy permits, we look forward to 1975 as another year of accomplishment for Jewel. As we do so, we know that almost as never before, we will need the complete support, energy, enthusiasm and ingenuity of Jewel people.

We Are Grateful

To Jewel people for dedication and spirit without which our facilities would be lifeless,

To Jewel shareholders for continued interest and support in difficult times, and

To Jewel customers who give us the opportunity to serve them so that our business lives may have a human purpose.

Donald S. Perkins
Chairman of the Board

Weston R. Christopherson
President

Direct Marketing Division	1974	Plan 1975
Routes—beginning of year	1,570	1,508
Routes added	—	—
Routes closed	62	58
Routes—end of year	1,508	1,450
Customers served	544,539	

The first Jewel company (founded in 1899 as the Jewel Tea Co.), the Direct Marketing Division, covers 40 states plus the District of Columbia. Over 1500 routes offer a wide array of grocery and general merchandise products for in-home shopping.

Jewel Food Stores	1974	Plan 1975
Stores—beginning of year	252	252
New stores added	14	15
Stores closed	14	9
Stores—end of year	252	258
Average age (years)	8	
Store area		
(average square feet)	24,700	
(range, square feet)	8,800-66,000	

Dating back to 1932, Jewel Food Stores today serves the greater Chicago area, Western Illinois, Northern Indiana, Lower Michigan and Southern Wisconsin with 252 stores. Featuring shop presentations of such products as pastry, sausage and prepared foods, most Jewel stores combine food and general merchandise. The Grand Bazaar store is Jewel's newest supermarket concept.

Eisner Food & Agency Stores	1974	Plan 1975
Stores—beginning of year	33	35
New stores added	3	2
Stores closed	1	1
Stores—end of year	35	36
Average age (years)	11	
Store area		
(average square feet)	20,000	
(range, square feet)	7,800-28,800	
Affiliate stores	50	52

Eisner Food Stores, which joined Jewel in 1957, is headquartered in Champaign, Illinois. Eisner operates 35 supermarkets in Central Illinois and Indiana. Eisner also franchises 50 independent store owners (mostly in smaller towns) through its Agency Division.

Osco Drug, Inc.	1974	Plan 1975
Stores—beginning of year	201	212
New stores added	20	18
Stores closed	9	6
Stores—end of year	212	224
Average age (years)	7	
Store area		
(average square feet)	15,000	
(range, square feet)	5,900-33,900	

Osco merged with Jewel in 1961, at the time operating 31 stores in the Midwest. Today Osco operates 212 drug stores serving customers in the East, Midwest, Middle South and Northwest. Of these units, 135 are located with a Jewel, Star, Eisner or Buttrey supermarket.

Turn*Style	1974	Plan 1975
Stores—beginning of year	28	28
New stores added	—	1
Stores closed	—	—
Stores—end of year	28	29
Average age (years)	7	
Store area		
(average square feet)	94,800	
(range, square feet)	57,000-121,900	

Turn*Style became one of the Jewel companies in 1962 with four Boston stores. At the close of fiscal 1974, it operated 23 stores in the Midwest, plus five in Boston. These stores average 95,000 square feet and combine self-service mass merchandising with promotional pricing.

Star Market Co.	1974	Plan 1975
Stores—beginning of year	58	61
New stores added	3	2
Stores closed	—	—
Stores—end of year	61	63
Average age (years)	8	
Store area		
(average square feet)	28,400	
(range, square feet)	16,700-48,300	

Star Markets, a Jewel company since 1964, serves four New England states. Respected throughout New England for unusual service, fresh produce and fish, Star stores combine the efficiency of a supermarket with the satisfaction of personal customer service. They are the "Quality Leader" in their market.

Brigham's	1974	Plan 1975
Stores—beginning of year	108	105
New stores added	2	3
Stores closed	5	—
Stores—end of year	105	108
Average age (years)	8	
Store area		
(average square feet)	2,800	
(range, square feet)	1,100-7,100	

Brigham's has a 60-year-old reputation for quality ice cream/candy parlors and sandwich shops and is a Boston "institution." Central manufacturing of ice cream and candy insures the highest quality.

White Hen Pantry	1974	Plan 1975
Stores—beginning of year	201	223
New stores added	33	14
Stores closed	11	6
Stores—end of year	223	231
Average age (years)	4	
Store area		
(average square feet)	2,500	
(range, square feet)	1,000-7,100	

The White Hen Pantry division developed from within Jewel Companies in 1965. Convenience food shopping is now provided through 223 stores in a variety of locations ranging from densely settled, highly ethnic Boston suburbs, to Chicago's high-rise apartment complexes, and to the less hurried country environment of small towns in Illinois and Wisconsin. Independent owner-operator families run most of these stores.

Buttrey Food Stores	1974	Plan 1975
Stores—beginning of year	39	41
New stores added	2	1
Stores closed	—	—
Stores—end of year	41	42
Average age (years)	8	
Store area		
(average square feet)	24,100	
(range, square feet)	5,600-39,400	

Buttrey Foods joined Jewel in 1966. Headquartered in Great Falls, Montana, its 41 stores serve Idaho, Minnesota, Montana, Oregon, Washington and Wyoming. High quality and decentralization of management responsibility are key to Buttrey Foods' operations.

Mass Feeding Corporation	1974	Plan 1975
Meals served (000's)	19,881	26,924

A Jewel investment in 1970, and a full-fledged Jewel company in the spring of 1974, MFC is headquartered in Elk Grove Village, Illinois. This company has developed a specialized approach in frozen meal preparations for feeding elementary and junior high school students, principally in the Midwest and Atlantic states.

Republic Lumber Company	1974	Plan 1975
Stores—beginning of year	4	5
New stores added	1	—
Stores closed	—	—
Stores—end of year	5	5
Average age (years)	4	
Store area		
(average square feet)	37,800	
(range, square feet)	21,000-80,100	

Republic joined Jewel in 1972. Republic sells both lumber and home improvement supplies at its five Chicagoland locations and is a major builder of residential garages in Chicago.

Jewel Marketing Company

The Jewel Marketing Company was formed in 1974 to provide product procurement, distribution support and planning, advertising production, real estate and construction and market research for Osco, Republic and Turn*Style.

People have worked diligently to attract members of minority groups and to develop and promote increasing numbers of both minorities and women into Jewel management positions.

Jewel employs approximately 53,000 part-time and full-time people throughout the United States. Of this total, 9.1% are minorities and 47% are women. For 1974, Jewel's total employment increased 2,127; minority employment increased 593, accounting for 27% of these additional positions. The total number of our officials and managers increased 3.6% during 1974, while minorities and women in this category increased 11.6% and 12.5%, respectively. At present, 5.5% of our officers and managers are minorities and 15.2% are women.

One example of our growing determination to increase the female management of our business in 1974 was the offering of a variety of women's programs and seminars for Jewel non-management women. Jewel women participated in company-sponsored management programs which included interest testing and individual career counseling. Others attended programs designed to assist them in focusing on management career opportunities in Jewel and, in the process, allowing them to discuss and reflect on the multiple roles of women in society with successful Jewel management women. Complementing these efforts were management awareness programs presented throughout Jewel companies to our male management with the purpose of helping them better understand the needs of women in business and their management potential. In addition, college recruiting was newly initiated at eight women's colleges in 1974.

Intensive recruiting at predominately black and Spanish American colleges also continued during 1974. Minorities represented 15% of all college graduates employed in 1974. Ongoing cooperative education programs with black universities, such as Wilberforce and Howard, have proven to be another excellent source of management candidates.

Efforts begun in 1968 by Jewel Food Stores, in cooperation with the Department of Labor, to provide equal employment opportunities to the disadvantaged have resulted in the employment of over 400 such individuals to date.

Future programs are now planned with the city of Gary, Indiana. These programs have been significant in two respects. They have shown that many individuals with no or poor work experience can perform productively if given good support and coaching, and secondly, partnerships between business and government can be successful in helping to solve the problems of the disadvantaged.

While we do feel we have made progress, we cannot be satisfied. However, we do believe that Jewel's actions are true reflections of the commitment Jewel people have made toward the attainment of our affirmative action plans and goals.

(Left top) Tim Flowers, Jr. was hired as an Eisner Management Trainee from Southern University in Baton Rouge, Louisiana. While a student there, Flowers owned and operated his own grocery store for three years. In his current nine month training period, he will be exposed to all Eisner departments. Flowers will then be assigned to a department management position.

(Left middle) Last spring, an all-day program entitled "Choices for Women" was offered for all women working at Jewel Companies' corporate offices. A panel of women currently in management positions at Jewel companies discussed their jobs and the opportunities available. The panelists are Ann Franklin, Office Manager at Jewel Marketing Company's Franklin Park, Illinois offices; Jeannine Caskey, Store Manager, Jewel Food Stores; Jane Dempsey, Cash Specialist, Jewel Food Stores; and, Lynn Urstadt, Assistant Counsel, Jewel Companies, Inc. (Betty McFadden, Group Vice President of Marketing for Direct Marketing Division, also participated in the panel, but is not shown here.)

(Left bottom) Pat Hicks (right) explains pricing procedure to clerk Nadine Paul. In her current position as Assistant Store Manager of Turn*Style's Skokie, Illinois store, Pat is responsible for all section managers, store merchandising, stocking and pricing. Hicks is a high school graduate and has been with Turn*Style since 1967.

Real Estate Affiliate Program

Jewel began building its own facilities in 1957 with the establishment of a Real Estate Affiliate Program. The basic objective is to provide the Company with the benefits of store ownership, including flexibility and retention of appreciation in real estate values, while enjoying the cash-flow advantages normally available only through leasing.

Under the program, we purchase land, construct a facility and sell it to an affiliated real estate corporation (99% owned by Jewel through convertible preferred stock), entering into a net lease with a rent sufficient for the real estate affiliate to meet its obligations. Using the lease and a first lien against the property as collateral, the real estate corporation borrows the funds necessary to repay Jewel for the cost of the facility. While outside developers normally rely on our Company's credit via a Jewel lease, this program uses such Jewel credit for its own long-term benefit.

Since 1957, over 200 real estate corporations have been formed. Most of the properties are located in the Midwest, though some are located from New Hampshire to the state of Washington. At the close of fiscal 1974, 283 operating units were leased from 208 affiliated real estate corporations. These included 182 food stores, 73 drug stores, 12 Turn*Style stores, 9 White Hen Pantry stores and 7 warehouse, manufacturing and other support facilities. Although some of the properties are neighborhood shopping centers, the main emphasis, particularly in the last decade, has been to construct properties for exclusive use by one or more of the Jewel companies.

These corporations have combined capital assets at book value of $151 million including land of $46 million and buildings and improvements of $105 million. The Company's current equity in these properties is approximately $18 million.

In addition to being a good investment, the Real Estate Affiliate Program provides maximum flexibility to the operating companies for their site selection and store opening plans. Further flexibility results from control over contractor selection and construction cost and freedom to make changes to the location throughout its productive life. If the store becomes unprofitable, the mortgage of the affiliate can typically be retired and the property sold.

The original objectives of the program are being met and it is an important part of our long-term growth and investment strategy.

The Palatine, Illinois Jewel/Osco is a real estate affiliate owned store. Opened in 1961, the facility was enlarged by 14,756 square feet and substantially improved in 1974.

Marketing Highlights of 1974

Jewel's commitment to build stores in the city is prompted both by its desire to serve and its knowledge that high density areas are excellent market locations. An aerial view of the Grand Bazaar at Grand and Kostner in Chicago shows the type of neighborhood typical of Grand Bazaar sites. At this Grand and Kostner store, the combined primary and secondary market includes a population of 137,864.

Osco's core service is its pharmacy. 1974's activities included the introduction of the *Prescription Price Book* which took Osco's price posting policy one step further by listing the prices for 95% of the prescriptions Osco fills. The book is also a handy at-home reference guide to emergency medical information. To date, 2.4 million books have been distributed. Consumer acceptance has been excellent. Shown above (left to right) are Bob Nakasone and Don Hoscheit, Co-Chairmen of the Pharmacy Marketing Task Force and Vice President of Pharmacy, Dave Maher.

Part-time box girl, Nancy Rogers, helps a customer load parcels into the family station wagon at Buttrey Foods' store in Moorhead, Minnesota. This newest of Buttrey Foods' 41 stores is a joint venture with Osco Drug.

Jewel Food Stores' successes in its Grand Bazaar ventures have suggested new techniques to other large Jewel stores. Palletainers, the large wire buckets used for bulk grocery products, are being used in new stores, like this one in Moline, Illinois. Roll-in milk displays and roll-in meat cases are being used or will be introduced soon. The wide-aisle and mass presentation of Grand Bazaar are reflected in the produce department of this Jewel Food Store in Moline.

Beth Collier, Bakery Hostess at Eisner Food Stores' Indianapolis store removes a fresh batch of blueberry pies. Everyone likes the smell of a bakery. Throughout Jewel, many different approaches are being taken to bring the aroma and freshness of an on-premise bakery into our stores. At Buttrey, all private label baked goods are baked in the store's own ovens. Of Buttrey's 41 stores, 35 now have this complete in-store bakery operation. Jewel Food Stores also has "scratch" bakeries which produce a varied line of some 240 items at nine locations. Star's deli bakes special bread and rolls not available in its regular bakery line. Eisner currently has two in-store bakeries which supplement the extensive line of baked goods from Eisner's centralized bakery. Plans call for another three Eisner in-store bake-off operations by fall '75.

Shareholders and managements of publicly-owned companies have been appropriately concerned in recent years about the liquidity of their enterprises as the stresses of a highly inflationary economy have required more dollars to finance replacements of inventory and to acquire capital assets. Simultaneously, borrowing costs have accelerated for credit-worthy companies while debt capital availability for financially marginal companies is scarcely available. Depressed common stock price earnings ratios have made the equity market a less desirable source of capital.

At the end of fiscal 1974, for example, cost of our supermarket warehouse and retail store grocery inventories, physically identical to items stocked a year earlier, had increased approximately $11 million or 19%. Construction costs in 1974 rose 46% over comparable costs three years ago while costs of comparable store equipment increased 35%.

To the extent practical in our highly-competitive industry, retail selling prices have been adjusted to reflect these accelerating costs. However, our price increases have not kept pace with the cost of doing business as each dollar of sales in 1974 produced in earnings, before provision for income taxes, 1.9¢ compared to 2.2¢ in 1973.

(Left to right) John N. Balch, Vice President and Treasurer; Gene B. Kilham, Controller; Howard O. Wagner, Chairman, Finance Committee and Chief Financial Officer; Richard E. George, Executive Vice President, Finance

We believe that the internally determined financial principles, which have guided Jewel in the past, are proving their value in this difficult inflation-recession period and as we plan for growth in the years immediately ahead. Included among the principles are:

- Investment in capital assets will be financed with long-term capital. In the past five years, investment in long-term assets aggregated $355 million or 11% less than funds provided by operations after dividend requirements, sales of common stock and net receipts from long-term debt commitments.
- Corporate long-term debt commitments should not exceed 33% of total capitalization (corporate long-term debt and shareholders' equity combined), even though provisions in existing long-term loan agreements permit commitments of long-term debt up to 40% of total capitalization. At February 1, 1975, the ratio of long-term debt to total capitalization was 29%. There presently exists a theoretical borrowing reserve of $69 million at February 1,1975, to take advantage of unusual or unexpected opportunities as well as to provide protection against unforeseen contingencies.
- Seasonal buildup of inventories and other short-term cash requirements are financed by short-term borrowings from banks through use of established credit lines or from sales of commercial paper supported at least 100% by unused bank credit lines. Short-term debt at the end of fiscal 1974 was $12.5 million and ranged during the year, from $0 to $63.9 million, with the weekly average being $31.4 million.

In January 1974, Jewel entered into a $40 million four-year Revolving Credit Agreement with a group of its major banks in part to provide additional funds for financing the higher replacement cost of inventories. At the end of 1974, this credit, which is classified as long-term debt, was fully utilized. Throughout the year, outstanding debt under the Revolving Credit Agreement ranged from $10 million to $40 million and the weekly average was $25.1 million.

- Financing commitments for new facilities to be acquired by the Company's real estate affiliates are arranged before construction is undertaken. At the end of 1974, Jewel had firm financing commitments of $22 million to cover construction already started on new facilities. During fiscal 1974, Corporate funds averaging $20 million were temporarily invested in construction in progress, pending completion and previously arranged permanent financing.

Total long-term debt of Jewel and its real estate affiliates combined with the present debt value of all property leased from others at February 1, 1975 was 57% of Jewel's total capitalization, including capitalized property leases. This is in the lower quarter of 55 large supermarket chains capitalized on a comparable basis. Of the 10 largest supermarket chains, Jewel's ratio ranks lowest.

Jewel Companies, Inc. is a group of autonomously managed companies. Each Jewel operating company is charged with managing its financial resources to generate the return required for Jewel Companies, Inc. to succeed and grow profitably.

Although individual Jewel companies are responsible for the management of their financial resources, corporate management alone has the responsibility for reallocating total financial resources to individual operating companies based on their demonstrated return on existing investments and on prospective superior return on new investments, all balanced within our financial capacity and the anticipated state of the economy. Beyond this, each major new project proposed by a Jewel company must be approved in advance by corporate management. Thus capital spending controls are set and monitored by corporate management.

HOWagner

H. O. Wagner
Chairman of the Finance Committee

Analysis Of Consolidated Earnings

1974 Compared to 1973

Sales increased 17.1% over 1973 with each Jewel operating company contributing to this improvement. Approximately one-half of the gain related to higher selling prices, with the remainder representing additional volume generated by existing and new retail facilities. Cost of goods sold, which consists principally of product costs, increased 16.7% which is attributable to the higher sales levels and product costs. Other costs which have shown substantial increases are warehousing and transportation, the latter category reflecting higher fuel prices.

Selling, general and administrative expenses increased 20.1%. While a portion of this increase relates to new retail facilities, the major increases within this category were higher employment costs and store occupancy costs.

Interest expense on obligations of Jewel Companies, Inc. increased 47.7% reflecting higher interest rates (33% above 1973) and higher inventory levels (averaging 19% above 1973) primarily because of increased product costs. Interest expense incurred by the Company's affiliated real estate corporations increased 17.1% because of additional financing for new stores opened this year.

Provision for income taxes decreased 2.7% resulting from higher 1974 investment tax credits of $410,000.

Net earnings before extraordinary items increased 2.2%. In summary, reduced earnings from the prior year for Turn*Style and Republic Lumber and increased Corporate interest expense negatively impacted net earnings by 11%. This decline was offset by improved earnings results of Jewel's other operating companies. Additional comments regarding these results are included in previous sections of this annual report.

1973 Compared to 1972

Sales increased 10.5% over 1972. Each Jewel operating company contributed to this improvement, generally through additional volume generated by existing and new retail facilities. Cost of goods sold, which consists principally of product costs, increased 11.6%, which is attributable to the higher sales levels and product costs.

Foreign income increased 28.0% reflecting the Company's 49% equity in the improved earnings of Aurrera, S.A., a leading diversified retailer in Mexico.

Interest expense on obligations of Jewel Companies, Inc. increased 43.6% reflecting higher interest rates (22% above 1972) and higher inventory levels (averaging 21% above 1972) primarily because of the need to purchase and warehouse products earlier than normal to assure in-stock condition. Interest expense incurred by the Company's affiliated real estate corporations increased 18.2% as a result of additional financing for new stores opened that year.

Net earnings before extraordinary items increased 3.2%. In summary, the year's earnings were negatively impacted by the Economic Stabilization Act (particularly Phase IV) and meat and other shortage problems, together with the costs of geographical expansion, particularly Milwaukee.

Principles Applied In Consolidation

The consolidated financial statements include the accounts of Jewel Companies, Inc., its wholly-owned subsidiaries and its affiliated real estate corporations. Jewel owns preferred stock convertible into 99% of the equity of the real estate affiliates. The equity of the Company in the net assets of the consolidated subsidiaries and affiliated real estate corporations is the same as the carrying amount of the investments except for its investment in Mass Feeding Corporation. All significant intercompany transactions are eliminated.

The Company's investment in Aurrera, S.A. (Mexico), 49% owned, is carried at cost plus equity in undistributed earnings since acquisition.

Inventories

Inventories are valued at the lower of cost or market, with cost being determined on a first-in, first-out or average basis. Out-of-season and discontinued merchandise is reduced to expected realizable value.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Depreciation is computed by the straight-line method over the estimated useful lives of the assets for financial statement purposes and accelerated methods are used for income tax purposes. Leasehold improvements are amortized over the shorter of estimated physical life or the term of the lease. The useful lives approximate 37 years for buildings, 17 years for leasehold improvements, 10 years for equipment, 6 years for trucks and trailers and 3 years for passenger cars.

The policy of the Company is to maintain its properties in good and serviceable condition. The cost of maintenance and repairs which does not extend the life of the assets is charged against earnings while major enlargements, remodelings or improvements are charged to the property accounts.

The cost of property, plant and equipment is eliminated from the accounts at the time assets are sold or retired. Gains and losses on normal equipment dispositions are recorded in the accumulated depreciation account for the respective asset group. The cost of replacements is charged to the asset account and depreciated over its estimated useful life.

Income Taxes

The Company follows the practice of providing for deferred income taxes resulting from timing differences in reporting certain income and expense items for tax purposes compared to their recognition in the financial statements. The major timing difference occurs in depreciation. Amounts estimated to be paid in the ensuing year are transferred to Income Taxes Payable.

The Company recognizes the investment tax credit as a reduction in federal income taxes in the year eligible equipment purchases are made.

The Company's policy is to provide for all taxes on earnings of its foreign affiliate expected to be repatriated. Taxes not provided on foreign earnings reinvested for indefinite periods amount to approximately $2,200,000 at the end of fiscal 1974 and $1,300,000 at the end of fiscal 1973.

Other Deferred Liabilities

Costs associated with the Company's self-insurance and contingent compensation plans are charged against current earnings. The portion of such costs estimated to be payable in the ensuing year is included in Current Liabilities with the balance included in Other Deferred Liabilities.

Pre-opening Costs

The Company follows the practice of charging all expenses incurred prior to the opening of a new retail unit or other facility against income as they are incurred.

Foreign Income

Foreign income has been translated at current exchange rates during the year.

Leases

The Company leases certain of its retail locations and equipment. Leases are not capitalized because they do not represent a purchase of an economic interest.

Profit Sharing and Retirement Costs

Nearly all employees meeting service requirements are covered by profit sharing plans under which the Company makes annual contributions, determined by a formula related to earnings, to provide retirement benefits. Retirement funds are held in trust, apart from Company funds. Benefits are determined by the market value of the trusts (approximately $179,000,000 at the end of 1974) and are fully funded.

The Company also provides retirement benefits for certain employees through contingent compensation plans and by payments to industry pension plans. These costs are for current service and entail no past service liability.

Statement of Earnings

	52 Weeks Ended Feb. 1, 1975	52 Weeks Ended Feb. 2, 1974
	(In thousands)	
Sales:		
Supermarkets	$1,905,114	$1,631,361
Drug stores	298,923	256,691
Self-service department stores	203,516	181,389
Direct Marketing Division	93,805	88,508
Other sales and revenues	97,555	61,652
Total sales	2,598,913	2,219,601
Cost of Doing Business:		
Cost of goods sold	2,056,341	1,762,198
Selling, general and administrative expense	480,728	400,244
	2,537,069	2,162,442
Operating Income	61,844	57,159
Foreign Income	5,474	5,467
Interest Income	1,010	529
Interest Expense:		
Obligations of Jewel Companies, Inc.	(11,825)	(8,008)
Obligations of real estate affiliates	(8,290)	(7,082)
Earnings Before Income Taxes and Extraordinary Item	48,213	48,065
Provision for Income Taxes	17,983	18,475
Earnings Before Extraordinary Item	30,230	29,590
Extraordinary Item—Gain on liquidation of investment in G B Entreprises (Belgium), net of income taxes of $3,110,000		6,746
Net Earnings	$ 30,230	$ 36,336
Earnings per Average Common Share Outstanding:*		
Before extraordinary item	$ 2.65	$ 2.63
Extraordinary item		.60
Net Earnings	$ 2.65	$ 3.23

*Adjusted for 3-for-2 stock split in July, 1974

The accompanying notes and summary of significant accounting policies are an integral part of the financial statements.

Report of Independent Certified Public Accountants

To The Shareholders and Board of Directors, Jewel Companies, Inc.

We have examined the consolidated statement of financial position of Jewel Companies, Inc. as of February 1, 1975 and February 2, 1974 and the related statements of earnings, shareholders' equity, and changes in financial position for the fifty-two week periods then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of Jewel Companies, Inc. at February 1, 1975 and February 2, 1974, the results of its operations and the changes in its financial position for the fifty-two week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.

Chicago, Illinois
March 18, 1975

	Feb. 1, 1975	Feb. 2, 1974
	(In thousands)	
Assets		
Current Assets:		
Cash	$ 26,880	$ 17,963
Marketable securities and certificates of deposit at cost which approximates market	6,807	12,035
Accounts receivable, less allowances ($1,757,000 and $1,323,000, respectively)	31,752	25,248
Inventories	208,042	187,409
Prepaid expenses and supplies	9,461	8,881
Total current assets	282,942	251,536
Investments	41,980	36,552
Property, Plant and Equipment, at cost, less accumulated depreciation	424,261	383,462
	$749,183	$671,550
Liabilities and Shareholders' Equity		
Current Liabilities:		
Notes payable	$ 12,459	$
Accounts payable	91,717	94,269
Payrolls and other accrued expenses	70,507	60,953
Income taxes payable	5,058	6,848
Current maturities of long-term debt:		
Obligations of Jewel Companies, Inc.	5,133	3,645
Obligations of real estate affiliates	5,665	5,166
Total current liabilities	190,539	170,881
Long-Term Debt, less current maturities:		
Obligations of Jewel Companies, Inc.	115,493	100,662
Obligations of real estate affiliates	113,952	98,341
Deferred Income Taxes	35,847	31,123
Other Deferred Liabilities	8,672	7,815
Shareholders' Equity:		
Preferred stock—3¾% cumulative $100 par value—authorized and issued 31,500 shares at Feb. 1, 1975	3,150	3,150
Common stock—$1 par value—authorized 25,000,000 shares, issued 11,427,720 shares at Feb. 1, 1975	81,258	72,260
Retained earnings	201,483	188,537
Treasury stock at cost	(1,211)	(1,219)
Total shareholders' equity	284,680	262,728
	$749,183	$671,550

The accompanying notes and summary of significant accounting policies are an integral part of the financial statements.

Statement of Shareholders' Equity

Two Years Ended February 1, 1975	Preferred Stock	Common Stock	Treasury Stock	Retained Earnings
		(Dollars in thousands)		
Balance, February 3, 1973				
—Outstanding shares	31,500	11,206,924	(16,743)	
—Amount	$ 3,150	$ 71,480	$ (1,192)	$164,675
Net earnings for the year—1973				36,336
Cash dividends declared:				
Preferred stock—$3.75 per share				(56)
Common stock—$1.1068 per share				(12,418)
Treasury shares purchased—500 preferred shares			(27)	
Common stock issued:				
Employee stock purchase plan—26,585 shares		684		
Stock option plan—4,050 shares		96		
Balance, February 2, 1974	3,150	72,260	(1,219)	188,537
Issued to Profit Sharing Fund—150,000 common shares		4,200		
Three-for-two common stock split		3,801		(3,801)
Net earnings for the year—1974				30,230
Cash dividends declared:				
Preferred stock—$3.75 per share				(56)
Common stock—$1.1767 per share				(13,421)
Treasury shares purchased—248 preferred shares			(15)	
Common stock issued:				
Employee stock purchase plan—39,711 unissued shares and 656 treasury shares		985	23	(6)
Stock option plan—450 shares		12		
Balance, February 1, 1975				
—Amount	$ 3,150	$ 81,258	$ (1,211)	$201,483
—Outstanding shares	31,500	11,427,720	(16,835)	

Common stock shares and dividends per common share have been adjusted to reflect the 3-for-2 split in July, 1974.

The accompanying notes and summary of significant accounting policies are an integral part of the financial statements.

Statement of Changes In Financial Position

	52 Weeks Ended Feb. 1, 1975 Operations	Feb. 2, 1974 Operations	Feb. 2, 1974 Extra-ordinary Item
	(In thousands)		
Source of Funds–			
From operations:			
Net earnings	$ 30,230	$ 29,590	$ 6,746
Charges and credits not affecting funds:			
Equity in undistributed earnings of unconsolidated affiliates	(5,442)	(3,367)	
Depreciation and amortization	37,026	32,358	
Deferred taxes and other deferred liabilities	5,581	7,627	
	67,395	66,208	6,746
From financing:			
Issuance of capital stock (net)	5,199	753	
Long-term debt:			
Jewel Companies, Inc.:			
New debt	20,000	35,636	
Repayments	(5,169)	(4,715)	(7,950)
Real estate affiliates (net)	15,611	14,812	
	$103,036	$112,694	$(1,204)
Use of Funds–			
Dividends to shareholders	$ 13,477	$ 12,474	$
New property, plant and equipment (net):			
Jewel Companies, Inc.	55,065	55,013	
Real estate affiliates	22,760	22,515	
Increase (decrease) in investments	(14)	333	(4,013)
Increase in working capital	11,748	22,359	2,809
	$103,036	$112,694	$(1,204)
Change in Working Capital–			
Increase (decrease) in current assets:			
Cash	$ 8,917	$ 187	$ 2,809
Marketable securities	(5,228)	5,952	
Accounts receivable	6,504	666	
Inventories	20,633	36,453	
Prepaid expenses and supplies	580	2,388	
	31,406	45,646	2,809
Increase (decrease) in current liabilities:			
Notes payable	12,459		
Accounts payable	(2,552)	13,109	
Accruals and taxes payable	7,764	7,951	
Current maturities of long-term debt	1,987	2,227	
	19,658	23,287	
Increase in working capital	$ 11,748	$ 22,359	$ 2,809

The accompanying notes and summary of significant accounting policies are an integral part of the financial statements.

Investments

	Feb. 1, 1975	Feb. 2, 1974
	(In thousands)	
Affiliates:		
At cost plus equity in undistributed earnings since acquisition -		
Aurrera, S.A., Mexico (49%)	$38,651	$32,903
Mass Feeding Corporation (54.6% as of Feb. 2, 1974)		1,762
All other	2,050	1,887
Excess of cost over net book value of Mass Feeding Corporation	1,279	
	$41,980	$36,552

The carrying basis of the investment in Aurrera, S.A., exceeds the Company's equity in the book value of underlying assets by approximately $14,750,000. This amount, attributable to an acquisition made prior to November 1, 1970, is not being amortized because the Company anticipates no diminution in value in the foreseeable future.

On March 31, 1974, the Company acquired the remaining 45.4% of the outstanding common stock of Mass Feeding Corporation. This transaction was treated as a purchase for accounting purposes.

The Company's 1974 Financial Statements include the results of operations of Mass Feeding Corporation on an equity basis from February 3, 1974 to March 31, 1974 and on a fully consolidated basis subsequent to that date.

The Company's aggregate purchase price for all of the common stock of Mass Feeding Corporation exceeded the net book value of assets acquired by $1,288,000. The portion of the excess ($348,000) attributable to the 1974 purchase is being amortized over 40 years. The Company does not expect any diminution in this $1,288,000 value; however, generally accepted accounting principles in force since November 1, 1970 require amortization of the 1974 portion.

Property, Plant and Equipment

The Company's investment in property, plant and equipment consists of the following:

	Feb. 1, 1975	Feb. 2, 1974
	(In thousands)	
Buildings	$175,564	$159,918
Less allowance for depreciation	37,083	33,172
	138,481	126,746
Equipment and leasehold improvements	377,893	335,143
Less allowance for depreciation and amortization	161,718	144,332
	216,175	190,811
Land	69,605	65,905
	$424,261	$383,462

Short-term Debt

Lines of credit are maintained with commercial banks ($66 million during 1974) to assure the availability of adequate short-term funds to meet seasonal borrowing requirements. The bank lines are supported by cash balances at the line banks. The arrangements with the banks are informal in nature; the supporting balances are largely generated from the normal time lag in presentation of company checks for payment and from receipts in the process of collection and do not restrict the availability of such supporting funds in meeting our daily requirements.

Additional bank credit was also available through the unused portion of the $40 million revolving credit agreement the Company has with a number of its principal banks. The year-end balance of $40 million is classified as long-term debt.

During 1974, borrowings from banks and through sales of commercial paper supported by these arrangements ranged from $20 million to $103.9 million and averaged $56.5 million on a weekly basis.

Interest rates on short-term borrowings during 1974 ranged from 6¼% to 12⅝% and averaged 10¼% on a weekly basis.

The year-end balance of notes payable consists of commercial paper ($7.5 million) and notes payable to banks ($5.0 million) at interest rates of 7% and 6¼%, respectively.

Income Taxes

Taxes on income consist of the following:

	52 Weeks Ended Feb. 1, 1975	Feb. 2, 1974
	(In thousands)	
Federal		
Currently payable	$14,295	$13,412
Deferred	5,053	5,759
Investment tax credit	(3,314)	(2,904)
	16,034	16,267
State and Local		
Currently payable	1,615	1,788
Deferred	334	420
	1,949	2,208
	$17,983	$18,475

Deferred income taxes arise because of differences in the timing in reporting items of income and expense for tax purposes compared to their recognition in the financial statements. The principal timing difference, depreciation, accounts for $6,075,000 of the deferred income tax provision in 1974 and $5,417,000 in 1973.

It is presently anticipated that new deferrals in the succeeding three years will equal, or be greater than, the amount of prior deferrals which will become currently payable.

An examination of federal income tax returns of the Company and its subsidiaries for fiscal years 1971 and 1972 is in process. While the outcome of the current examination is not determinable at this time, it is the opinion of management that deficiencies, if any, will not have an adverse effect on the consolidated financial position of the Company or the results of its operations.

Federal income tax expenses for 1974 and 1973 were less than the statutory corporate tax rate. A reconciliation of the statutory tax rate with the effective tax rate follows:

	1974	1973
Statutory tax rate	48.0%	48.0%
Investment tax credit	(7.2)	(6.3)
Foreign income—no domestic income tax	(5.6)	(5.5)
All other (net)	(.5)	(.7)
Effective tax rate	34.7%	35.5%

Long-term Debt

Long-term debt at February 1, 1975 was as follows:

	Rate	Total Debt	Maturities
		(In thousands)	
Jewel Companies, Inc.			
Insurance Companies	6.875%	$ 28,500	1975-1993
Insurance Companies	7.875%	30,000	1975-1994
Commercial Banks	4.50%	16,250	1975-1987
Commercial Banks	*	40,000	1978
All other (average rate)	5.25%	5,876	1975-1997
		$120,626	
Real Estate Affiliates (average rate)	7.74%	$119,617	1975-2004

*Prime lending rate

Long-term debt matures as follows:

	Jewel Cos., Inc.	Real Estate Affiliates
	(In thousands)	
1975	$ 5,133	$ 5,665
1976	$ 5,140	$ 6,177
1977	5,144	6,470
1978	45,311	6,685
1979	4,571	5,976
1980 and thereafter	55,327	88,644
	$115,493	$113,952

On January 25, 1974, the Company entered into a $40,000,000 revolving credit agreement with a number of its principal banks. The agreement provides for interest on borrowings at the prime rate on a floating basis and expires on February 10, 1978. At February 1, 1975, $40,000,000 was outstanding on this loan as compared to $20,000,000 at February 2, 1974.

The Company's loan agreements provide restrictions as to the maintenance of working capital (as defined) and payment of cash dividends on common stock. As of February 1, 1975, net working capital was approximately $43,000,000 in excess of minimum requirements and retained earnings not restricted for cash dividends were $78,000,000.

The long-term debt of the real estate affiliates is not a direct obligation of Jewel Companies, Inc., but is secured by the assignment of lease agreements between Jewel and the affiliates and first liens against real properties having a book value of approximately $151,000,000. The debt will be fully amortized during the firm term of each lease, generally 20 years.

Capital Stock

At February 1, 1975, there were 1,145,346 shares of common stock reserved of which 797,691 were for Stock Options, including 300,000 shares reserved in 1973, and 347,655 were for the Employee Stock Purchase Plan, including 300,000 shares reserved in 1974.

The following summary shows the changes in stock options:

Stock Option Plan	1974	1973
Options outstanding— beginning of year	603,900	497,475
Granted	267,250	157,500
Exercised	(450)	(4,050)
Cancelled	(19,500)	(8,325)
Expired	(90,750)	(38,700)
Options outstanding— end of year	760,450	603,900

	Feb. 1, 1975	Feb. 2, 1974
Options exercisable	305,900	280,200
Shares available for grant	37,241	194,241

Outstanding options were granted at prices ranging from $16.88 to $43.33 per share, the approximate market price on the date of grant. Qualified Stock Options become exercisable in equal installments over a four-year period and expire five years from the date of grant. Non-qualified Stock Options become exercisable in one year from the date of grant and expire in ten years.

The option price is set at approximately fair market value on the date granted; hence, there is no compensation to be charged to the income account. All of the proceeds from the exercise of stock options are added to the Common Stock Account (less cost, when treasury shares are issued).

At February 1, 1975, 16,835 shares of preferred stock (cost $1,211,000) were held in the treasury. These shares were acquired to meet the sinking fund provisions of the issue, which require full retirement by 1984. Sinking fund requirements are satisfied through 1979.

Common Stock Split

On June 19, 1974, the Company's Board of Directors authorized a three-for-two common stock split to be distributed on July 31, 1974. All share and per share information in this report reflects the adjusted number of shares. The par value of the new shares issued totaled $3,801,321 and has been transferred from retained earnings to the common stock account.

Lease Commitments

The Company leases certain of its retail and other locations under firm-term lease arrangements ranging from 5 to 25 years (principally 15 years for retail locations), plus a number of varying renewal options. Rentals for leased real properties (excluding those leased from real estate affiliates) were $24,823,000 in 1974 and $22,035,000 in 1973, after reduction for sublease income of $521,000 and $664,000, respectively. Included in net rental expense are $2,822,000 in 1974 and $1,652,000 in 1973 of rentals determined by sales volume. As of February 1, 1975, minimum annual payments for leased real properties were as follows:

Year	Amount *(In thousands)*	Years	Amount *(In thousands)*
1975	$24,353	1980-1984	$17,422 per year
1976	23,468	1985-1989	12,062 per year
1977	22,128	1990-1994	3,947 per year
1978	21,359	1995 and	
1979	20,037	thereafter	981 per year

The present value (debt content) of real property lease commitments amounts to approximately $135,000,000, excluding the present value of rentals to be received from existing noncancelable subleases which are not significant. The present value was determined by discounting the aggregate commitments under net leases and 75% of aggregate commitments under gross leases at interest rates appropriate for their respective starting dates. (Approximately 25% of gross base rentals cover real estate taxes, maintenance and insurance costs borne by landlords; such costs are assumed by Jewel under net leases.) Interest rates ranged from 4.75% to 9.45%; weighted average rate was 7.58%.

Certain of the above leases (principally those with firm-term lease periods of more than 20 years) could be considered non-capitalized financing leases as defined by the Securities and Exchange Commission. The effect of not capitalizing such leases is considered insignificant (present value is approximately 4% of total long-term debt and shareholders' equity). If these leases had been capitalized, the effect on net earnings would be less than 1%.

Costs and Expenses

Set forth below is a comparative summary of significant costs and expenses:

	1974	1973
	(In thousands)	
Depreciation and amortization		
Jewel Companies, Inc.		
Buildings	$ 1,298	$ 1,356
Equipment	31,919	27,627
	33,217	28,983
Real estate affiliates		
Buildings	3,780	3,295
Equipment	29	80
	3,809	3,375
	$37,026	$32,358
Taxes, other than income		
Payroll	$22,644	$19,834
Property	11,124	9,638
Other	2,221	1,888
	$35,989	$31,360
Rents		
Real estate	$24,823	$22,035
Personal property	4,101	3,599
	$28,924	$25,634
Advertising	$29,893	$23,875
Retirement benefit plans		
Profit sharing plans	$ 9,398	$ 9,113
Industry pension and other plans	3,164	2,373
	$12,562	$11,486

The Employee Retirement Income Security Act of 1974, which provides that an employer is contingently liable (up to 30% of shareholders' equity) in the event of inadequate funding of its retirement plan, has no effect on the Company because its profit sharing plans are fully funded; and it has limited legal liability as to the funding of industry pension plans.

Ten Years of Progress

(In thousands except per share figures)	1974	1973	1972†
Operating Results			
Sales:			
Supermarkets	$1,905,114	$1,631,361	$1,464,962
General merchandise stores	502,439	438,080	406,138
Other sales and revenues	191,360	150,160	138,194
Total sales	2,598,913	2,219,601	2,009,294
Operating income:			
Supermarkets	48,298	42,090	41,160
General merchandise stores	9,617	12,772	10,697
Other operating units	3,929	2,297	1,740
Total operating income	61,844	57,159	53,597
Foreign income	5,474	5,467	4,271
Interest income	1,010	529	404
Interest expense:			
Jewel Companies, Inc.	(11,825)	(8,008)	(5,577)
Real estate affiliates	(8,290)	(7,082)	(5,994)
Earnings before income taxes and extraordinary income	48,213	48,065	46,701
Provision for income taxes	17,983	18,475	18,034
Earnings before extraordinary income	30,230	29,590@	28,667@
Earnings retained	16,753	23,862	17,567
Depreciation and amortization	37,026	32,358	27,708
New property, plant and equipment (net):			
Jewel Companies, Inc.	55,065	55,013	59,444
Real estate affiliates	22,760	22,515	18,701
Financial Position			
Working capital	$ 92,403	$ 80,655	$ 55,487
Total assets	749,183	671,550	578,238
Long-term debt, less current maturities:			
Obligations of Jewel Companies, Inc.	115,493	100,662	77,691
Obligations of real estate affiliates	113,952	98,341	83,529
Common shareholders' equity	283,214	261,237	236,572
Common Stock Information (Fiscal Year)*			
Earnings per common share	$ 2.65	$ 2.63@	$ 2.56@
Dividends paid per common share	$ 1.15	$ 1.11	$ 1.09
Return on shareholders' average equity	11.0%	11.8%@	12.5%@
Common dividends declared as % of net earnings	44%	42%@	43%@
Equity per common share	$ 24.78	$ 23.25	$ 21.11
Common shares outstanding—average	11,381	11,217	11,187
Common stock price range—low-high	$16⅝–29⅛	$18⅝–34⅛	$27⅛–43⅛
Closing price year end	$ 22¾	$ 24⅞	$ 34⅛
Price earnings ratio (on average price range)	8.6	10.0@	13.7@
Square Footage of Retail Stores (Total Space)			
Supermarkets	9,648	8,916	8,511
General merchandise stores	6,032	5,659	5,302
Other stores	866	843	744
Total at year end	16,546	15,418	14,557

†53-week year, other years 52 weeks
*Adjusted for stock splits
@Excludes extraordinary income of $6,746,000 or $.60 per share in 1973 and $1,199,000 or $.11 per share in 1972

1971	1970	1969	1968	1967†	1966	1965
$1,332,480	$1,218,695	$1,115,000	$1,020,753	$ 949,514	$ 808,403	$ 713,401
353,638	292,372	234,258	192,868	173,540	135,311	111,447
129,131	122,403	120,298	124,053	125,941	116,423	108,583
1,815,249	1,633,470	1,469,556	1,337,674	1,248,995	1,060,137	933,431
38,851	37,636	33,358	31,803	26,568	24,918	23,967
7,563	8,722	8,213	7,045	6,340	4,117	2,904
4,131	4,075	4,308	3,652	2,722	3,254	4,584
50,545	50,433	45,879	42,500	35,630	32,289	31,455
4,081	3,272	1,129	239	–	–	–
529	880	746	598	553	616	807
(5,216)	(5,348)	(3,453)	(2,406)	(2,138)	(1,759)	(1,746)
(4,681)	(3,586)	(2,845)	(2,318)	(2,078)	(1,832)	(1,536)
45,258	45,651	41,456	38,613	31,967	29,314	28,980
18,550	21,614	19,905	18,471	14,297	12,838	12,782
26,708	24,037	21,551	20,142	17,670	16,476	16,198
15,016	12,881	11,683	10,935	9,083	8,221	8,407
23,336	20,432	17,669	15,713	14,628	12,989	11,829
46,220	37,769	37,742	24,202	25,687	21,739	17,080
15,649	21,418	7,399	11,743	5,050	10,080	3,728
$ 60,768	$ 79,432	$ 53,194	$ 64,827	$ 62,398	$ 64,621	$ 64,336
519,962	486,912	406,493	349,241	313,783	285,269	270,604
71,796	76,793	59,036	39,581	36,791	35,371	33,066
68,859	61,615	51,902	48,229	39,967	37,321	32,421
217,513	199,499	161,702	150,014	138,382	129,797	118,767
$ 2.40	$ 2.23	$ 2.15	$ 2.01	$ 1.75	$ 1.65	$ 1.64
$ 1.03	$ 1.00	$ .97	$ .90	$ .83	$ .80	$ .75
12.7%	13.1%	13.5%	13.6%	12.7%	12.8%	13.6%
44%	46%	45%	45%	48%	49%	46%
$ 19.51	$ 18.06	$ 16.15	$ 15.01	$ 13.86	$ 13.07	$ 12.11
11,099	10,731	9,995	9,983	9,987	9,905	9,789
$34⅜–44⅜	$24⅜–36½	$28⅝–37⅛	$20⅝–36⅜	$17¾–23⅜	$17 –28¾	$24 –30⅞
$ 40⅜	$ 35⅛	$ 30⅜	$ 31½	$ 23⅛	$ 20⅝	$ 26⅞
16.4	13.7	15.3	14.2	11.5	13.9	16.8
7,813	7,591	7,172	6,732	6,590	6,378	5,959
4,863	4,214	3,335	2,743	2,385	2,067	1,762
691	388	284	217	196	177	135
13,367	12,193	10,791	9,692	9,171	8,622	7,856

Directors
Jewel Companies, Inc.

Raymond C. Baumhart, S.J.
President, Loyola University of Chicago

Harry G. Beckner
President, Jewel Food Stores

Silas S. Cathcart
Chairman, Illinois Tool Works Inc. (Fasteners, Tools, Electronic Components & Plastic Packaging Products)

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Executive Vice President, Administration and General Counsel

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Dean of the College of Home Economics, Iowa State University

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Of Counsel, Roan & Grossman (Attorneys)

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Vice President and Legislative Counsel, Motion Picture Association of America

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D. S. Perkins

Annual Meeting
The Annual Meeting will be held at 2:00 p.m. E.D.S.T. on Wednesday, June 18, 1975, at the Bankers Trust Company, 280 Park Avenue, New York, New York.

Transfer Agents
Manufacturers Hanover Trust Company, 4 New York Plaza, New York, New York 10015

Continental Illinois National Bank and Trust Company of Chicago, 231 South LaSalle Street, Chicago, Illinois 60604

Registrars
Bankers Trust Company, 16 Wall Street, New York, New York 10015

The First National Bank of Chicago, One First National Plaza, Chicago, Illinois 60670

Common Stock Listing
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Corporate Office
O'Hare Plaza, 5725 N. East River Road, Chicago, Illinois 60631

This report is submitted to the shareholders of the Corporation for their information and is not intended to be used in connection with the sale of or offer to sell any securities, nor is it intended to be information to be included in a prospectus within the meaning of the provisions of the Federal Securities Act of 1933, as amended.

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Robert G. Ulrich
Assistant General Counsel

*Effective March 31, 1975, Grant C. Gentry resigned as Director and Executive Vice President, Administration and General Counsel to accept the post of President and Director of The Great Atlantic and Pacific Tea Company.

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